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## **In The Cattle Markets**

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### **What Does The Future Hold for Corn Prices?**

One of the big question marks for the cattle industry in 2007 is ‘What will corn prices do?’ The chart below helps put corn prices in perspective.

The chart examines monthly average cash corn prices in Kansas over a 32 year period, from 1975 through 2006. The average calendar year cash corn price in Kansas from 1975 through 2006 was \$2.46/bushel. Five-year rolling averages of Kansas corn prices ranged from a low of \$2.05/bushel from 1998 through 2002 to a high of \$2.96/bushel from 1980 through 1984. And over the most recent five year period (2002-2006), Kansas’ cash corn prices averaged \$2.33/bushel. Several other discrete five-year averages are listed on the chart.

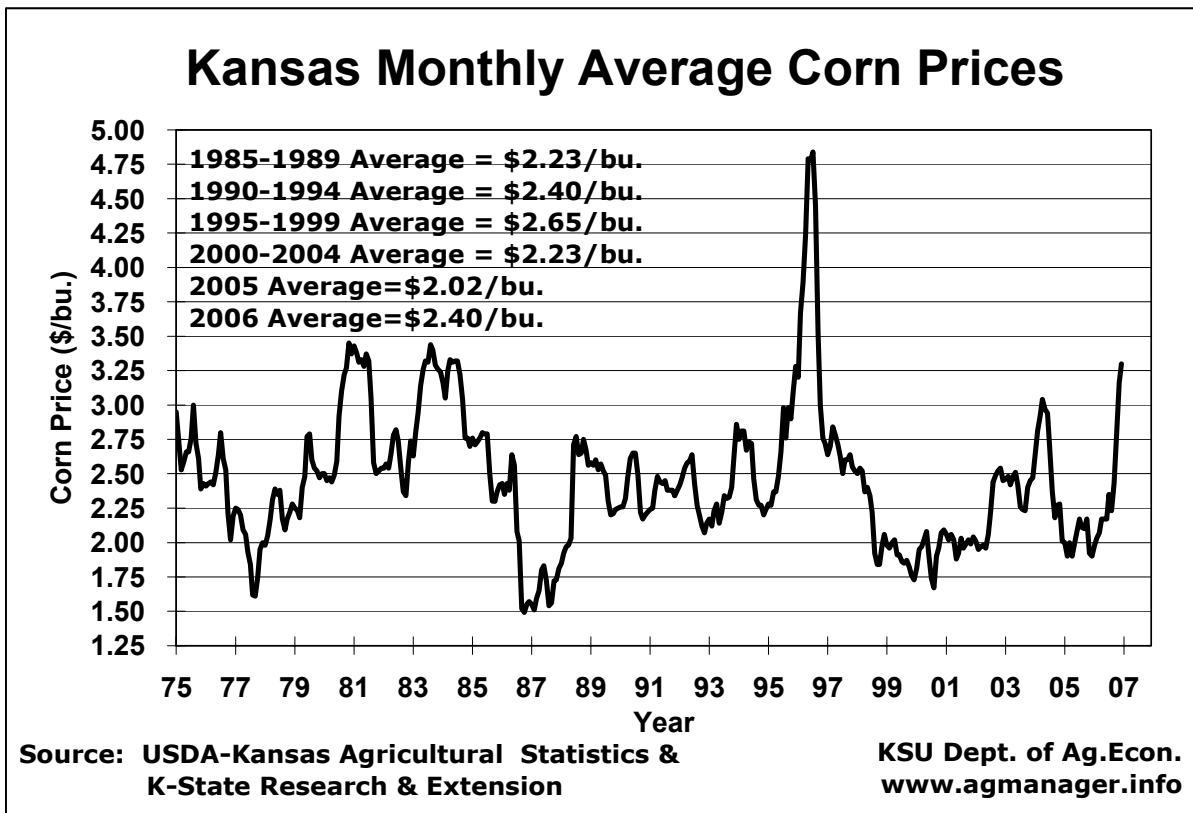
The chart reveals one significant spike in corn prices that was markedly higher than other corn prices recorded throughout the rest of the more than 30 years of price data. As most cattle feeders recall all too vividly, the spike occurred in the spring and summer of 1996. Quarterly averages from that time period tell the story. During the fourth quarter of 1995 cash corn prices in Kansas averaged \$3.09/bushel, which was up about 23% compared to spring 1995. But the big price rise was still ahead. During the first three quarters of 1996 cash corn prices in Kansas averaged \$3.59, \$4.60, and \$4.27 per bushel, respectively. Monthly average corn hit a peak of \$4.84/bushel in July. Later that year, after new crop corn supplies hit the market, prices plummeted. Kansas cash corn prices averaged just \$2.83/bushel from October to December that year.

Will 2007 be a repeat of 1996? How high will prices go and will they plummet when the 2006 harvest gets underway? Comparing the two years for similarities and differences might shed some light on what’s likely to happen this year.

The increase in corn prices in late 1995 and 1996 was primarily driven by a supply shortfall. Corn production during 1995 totaled just 7.4 billion bushels, 27% below the prior year’s record level. Prices rose to ration the markedly smaller supply among competing uses. When it became apparent during the winter and early spring of 1996 that usage had not been curtailed sufficiently to prevent U.S. corn stocks from dropping so low that shortages would occur before the 1996 harvest hit the market, prices ratcheted up sharply to curtail usage. Later that year, when it was apparent that corn supplies would be ample, fueled by a sharp rebound in U.S. corn production to 9.2 billion bushels (25% higher than in 2005); prices plummeted because the supply shortfall was effectively over.

The increase in corn prices in the current corn marketing year is not supply driven. The 2006 corn crop, which was the third largest corn crop on record, totaled 10.7 billion bushels, just 3% smaller than the prior year. The boost in corn prices instead has been driven by strong demand, especially for corn used to produce ethanol. USDA projects that total corn usage this marketing year will exceed production by just over 1 billion bushels.

What does this mean for 2007? Demand driven bull markets have more staying power than supply driven bull markets. Although ethanol demand is heavily dependent on government policy decisions regarding subsidies, tariffs, and mandated usage levels, it looks like demand for corn used to produce ethanol will remain strong in the foreseeable future. Unlike 1996, there does not appear to be any danger of the U.S. running short of corn before the 2007 harvest hits. But projected carryover supplies of less than 1 billion bushels mean the corn market will be sensitive to weather problems this spring and summer. Longer term, U.S. livestock producers can expect to see more corn price variability than in the past. Repeats of what took place during 1996 are not out of the question and that means it will pay to more aggressively manage feed price risk.



#### The Markets

The cattle market continues to feel the effect of winter storms moving through the Plains states. Slaughter cattle prices increased nearly \$1/cwt. last week, on very light volume as feeders tried to recover from a combination of rain, ice, and snow. Trade so far this week has also been light at roughly steady prices. Light slaughter supplies have been pushing boxed beef prices up. Last week's average was \$146 for Choice boxed beef cuts, but USDA indicates prices have increased sharply since last week, averaging about \$153 on 1.10.07. Corn prices declined \$0.20/bushel last week, but were still \$1.44 higher than a year ago.

	<b>Last Week</b>	<b>Previous Week</b>	<b>Last Year</b>
Kansas Fed Steer Price, live weight	\$88.87	\$88.01	\$93.91
Neb. Fed Steer Price, dressed weight	\$141.15	\$139.44	\$148.67
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$99.17	--	\$114.42
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$112.40	--	\$138.30
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$102.55	\$105.32	\$118.83
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$118.90	\$116.76	\$146.01
Choice Boxed Beef Price, 600-900 lb. carcass	\$146.26	\$143.45	\$155.58
Choice-Select Spread, 600-900 lb. carcass	\$14.80	\$15.67	\$15.04
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.36	\$3.56	\$1.92
DDG Price, Iowa, \$/ton (Tuesday quote)	\$127.00	\$125.00	N/A